

“UKRAINE: HOW IT CAN COMBAT CORRUPTION”

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Mr. Chairman,

I would like to thank you for this opportunity to speak on an important topic, how the new Ukrainian government can fight corruption. At present, Ukraine faces three imminent threats. The greatest threat is of course Russian military aggression. As a consequence of this war, Ukraine is in a horrendous financial crisis, but it also needs to deal with its old internal enemy, corruption. All these three threats need to be fought at once, and Ukraine needs all the international support it can get.

Ukraine is pervasively corrupt. Transparency International ranks Ukraine 144 out of 177 countries on its corruption-perception index. Corruption was at the heart of popular discontent with the deposed regime of former President Viktor Yanukovich, and widespread graft helps explain why the economy stalled in 2012 and 2013. Kiev must tackle this problem urgently.

The scale of the alleged graft under the previous administration is breathtaking. Prime Minister Arseniy Yatsenyuk has accused the Yanukovich regime of stealing \$37 billion from the state—equal to one-fifth of Ukraine's GDP in 2013—during its four years in power. The ouster of Yanukovich in February has created an opportunity to confront corruption in Ukraine.

The fight against corruption must start from the top. Politics must come first. Ukraine's political institutions have been thoroughly corrupted. Oleh Rybachuk, the chief of staff to former-president Viktor Yushchenko, runs a nongovernmental organization that has examined the apparent expenditures and legally declared incomes of the 450 members of parliament who sat from 2007 to 2012. Mr. Rybachuk's NGO found that only a handful of these members could have plausibly claimed to live solely off their official incomes.

Political cleansing at the top is the necessary precondition for Ukraine combating corruption. This process has started. On October 26, Ukraine carried out free and fair parliamentary elections. Out of the 423 deputies, a majority has never been parliamentarians before and a large number of anti-corruption activists were elected. They are not likely to be bribed or silenced. The new parliament is soon to convene and a new coalition government needs to be formed swiftly and start acting to fight both the financial crisis and corruption.

Next comes the cleansing of the state. Ukraine's public service is widely considered pervasively corrupt, as many people who have tried to secure a business license could attest. Cleansing Ukraine of its corruption will require several interrelated measures. Estonia and Georgia have shown the way. To begin with, the state needs to limit its regulatory role by abolishing or merging many state agencies. Deputy Prime Minister Volodymyr Groisman has stated that Ukraine has "80 different inspectorates, controlling organs, and control departments in ministries." He argued that at least 60 should be closed and a maximum of 20 remain.¹ Minimizing state interference in the economy—whether by privatizing state-owned assets or cutting regulations—reduces opportunities for corruption.

In October, Ukraine adopted a law on lustration, which scrutinizes or ousts officials who have served in high positions in corrupt agencies. This entails the creation of an independent commission scrutinizing all the top judges and prosecutors in Ukraine and dismissing those found to have engaged in graft.

Since the early 1990s, the truly rich in Ukraine have made their fortunes on trade with natural gas, imported from Russia or produced in Ukraine. At present, the domestic price of natural gas

¹ "Iz 80 inspektii i kontrol'nykh organov dolzhno ostat'sya maksim 20 – Vladimir Groisman," *Pravitel'stvennyi Portal*, July 30, 2014, Available at <http://www.kmu.gov.ua/> (accessed on July 31, 2014).

produced by state-owned companies is a paltry \$30 per 1,000 cubic meters, while the market price is twelve times higher. Deputy Prime Minister Volodymyr Groysman has said that gas worth \$2.5 billion a year was sold this way under Yanukovich.² The obvious resolution of this problem is to unify the energy prices at a market level. Then this corruption would finally be eliminated. The deregulation of gas and electricity prices in this case must be seen as a matter of combating corruption, not as a social issue. Poor households could be fully compensated with a minor share of the current budget cost.

Another major source of corruption is public procurement. Under Yanukovich, kickbacks of 50 percent were considered normal. One of the new government officials claimed that the total embezzlement of procurements amounted to only one-fifth.³ Public procurement must be made open and competitive. Ukraine has recently adopted a law on public procurement requiring open public tenders, and voters should demand their leaders follow that law to the letter. Considering that total public procurement in Ukraine is about \$12 billion a year, and 2 percent of GDP could be kept away from corrupt operators through better procurement this would be a great gain of \$2.4 billion.

The new government should also cut public expenditures, and corrupted subsidies must be eliminated. The tax system also needs to be simplified and the tax police abolished, to shield taxpayers from lawless persecution.

In October, Ukraine also promulgated a package of anti-corruption laws. These laws aimed at a more appropriate definition of corruption, greater transparency, and the creation of a new independent

² *Ekonomichna Pravda*, September 11, 2014.

³ “Pervy zamministra kabmina Parakya: Na goszakupkakh vorovalas’ kazhdaya pyataya grivna (First Deputy Minister of the Cabinet of Ministers Parakuda: In State Procurement Every Fifth Hryvnia Was Stolen),” *Focus*, October 20, 2014.

investigating organ, the Anti-Corruption Bureau for the investigation of top level officials suspect of corruption. At the same time, Ukraine tightened its legislation against money laundering.

By signing the Association Agreement with the European Union, Ukraine has committed itself to adopting hundreds of reform laws, while the European Union has committed itself to providing substantial technical assistance in drawing up new laws and reorganizing state agencies. The Ukrainian people have made a choice for Europe. If they stick with it and pursue reform with determination, they will have their best chance to clean out the Augean stables of a long-corrupt system.

The other major international organization that plays a major role in Ukraine is the International Monetary Fund, in which the United States plays a key role in the as its biggest shareholder. The United States also engages directly in Ukraine through bilateral assistance through USAID. It rightly engages in Ukraine's energy reforms which will be crucial not only for state finances and energy efficiency but also for the improvement of governance in Ukraine. The United States has a major interest in the economic and legal success of a democratic and friendly Ukraine.

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